



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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July 8, 2014

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: John Naimo  
Acting Auditor-Controller

A handwritten signature in black ink, reading "John Naimo", is written over the printed name.

SUBJECT: **WORKERS' COMPENSATION PAYMENT PROCESS - FOLLOW-UP  
REVIEW**

We have completed a follow-up review of the Chief Executive Office's (CEO) progress in implementing the recommendations from our July 2007 report on the Workers' Compensation Payment Process. Our original report contained 26 recommendations related to the CEO's monitoring of the Third-Party Administrators' (TPAs) workers' compensation payment process; the TPAs' compliance with payment processing procedures; data security; and access and processing controls over GenIRIS. GenIRIS (previously known as GENCOMP) is the system used by the CEO to process workers' compensation payments and maintain workers' compensation data. Our review focused on 21 of the 26 recommendations from our 2007 review.

**Summary of Findings**

Overall, the CEO has made progress in implementing the recommendations from our 2007 report. Of the 21 recommendations reviewed, we noted that the CEO had fully implemented five and substantially or partially implemented 16 recommendations. This follow-up report includes the implementation statuses for the 21 recommendations from our 2007 report, and 24 new recommendations. A number of the new and prior report recommendations address the need for the CEO to reconcile the vendor information (i.e., Taxpayer Identification Numbers (TINs) and/or addresses) between GenIRIS and electronic Countywide Accounting and Purchasing System (eCAPS), and to reduce the number of payments that are issued using Miscellaneous Vendor (MV) codes. To address these issues, the CEO has reconvened a workgroup previously comprised of

both CEO and Auditor-Controller (A-C) staff. The A-C has agreed to continue its participation in the workgroup, provided the CEO assumes leadership responsibilities and develops a plan to address the CEO's vendor reconciliation issues. In addition, the CEO has indicated that many of the system-related issues identified in this report will be resolved with Claims Vision (i.e., the GenIRIS replacement system), scheduled for implementation in September 2014. However, should implementation be delayed, the CEO has indicated that regardless of which system is in place, they will implement the system-related recommendations by January 2015. For Claims Vision, this includes ensuring that vendor information is complete and accurate prior to adding the vendors into Claims Vision. The following are examples of the areas for improvement:

- **Reduce the Number of Miscellaneous Vendor Payments:** We noted a significant increase in the number of payments issued using MV codes since our original review. This increase is due to (1) problems with the CEO's vendor matching routine that issues payments using MV codes when the vendor information between GenIRIS and eCAPS does not agree; (2) the CEO's elimination of the "hold" file as a tool to allow time to correct mismatched vendor information; and (3) the CEO's use of a "bypass" list of over 1,500 vendors, established by the CEO to circumvent the vendor matching process and automatically issue payments using MV codes. The misuse of MV codes understates vendor activity in eCAPS and circumvents established eCAPS vendor payment controls. To resolve this issue, the CEO needs to continue to reconcile the GenIRIS and eCAPS vendor tables, correct the problems with their GenIRIS/eCAPS vendor matching routine, reestablish the hold file, and immediately eliminate the bypass list.

*CEO's Response – The CEO's attached response indicates that the Department will continue to reconcile the GenIRIS and eCAPS vendor tables to reduce the number of payments to MV codes, and has formed a team comprised of staff from the CEO and A-C to identify and improve vendor table reconciliation issues. However, the CEO indicates that the hold file proved to be ineffective, and will reconsider the hold file if the A-C allows automated vendor add/modifications in eCAPS. The CEO also indicates that ceasing to use the bypass list would cause some payments to be sent to incorrect addresses.*

*Auditor's Response – The A-C strongly opposes the CEO's use of the bypass list as an alternative to correcting problems with their vendor matching routine, because it circumvents established vendor payment controls. Provided the CEO complies with the A-C's batch submission requirements established in 2006, the A-C will continue to allow the CEO to submit automated vendor adds/modifications to achieve the recommendation of reconciling vendor information between GenIRIS and eCAPS.*

- **Improve TPA Payment Controls:** The CEO needs to significantly improve its monitoring of the TPAs' compliance with established payment controls by conducting on-going payment reviews for a sample of payments across all approval levels. In

addition, the CEO needs to require TPAs to apply a secondary approval to a larger number of payments, including payments deemed to be of higher risk. For example, we noted 24 (10%) of 231 payments reviewed, totaling \$23,974, were duplicate payments. For 12 of the duplicates, totaling \$9,629, TPA staff reviewed their own work and manually released the payments by overriding system controls that identified the payments as potential duplicates.

*CEO's Response – The CEO's attached response indicates that they agree with our recommendations, and have developed an additional payment process audit that will be implemented once fully staffed. The CEO anticipates that these recommendations will be completed by October 1, 2014.*

*Auditor's Response – Although the CEO agrees with our recommendations, the CEO's attached response indicates that the A-C inaccurately cited six payments as duplicates or overpayments. However, the six payments referenced by the CEO are not cited as duplicates or overpayments in our report.*

- **Identify and Correct Cause of System-Generated Duplicate Payments:** The CEO needs to identify and correct the GenIRIS/eCAPS interface programming logic that allows system-generated duplicate payments to be created. Since our 2007 review, we noted a significant decrease in the number of system-generated duplicate payments. However, we still identified 14 duplicates, totaling \$15,242, and the CEO has been unable to explain what program errors caused the duplicate payments.

*CEO's Response – The CEO's attached response indicates that it is highly unlikely the 14 duplicate payments were system or program generated, and believes a more logical explanation is that the duplicates were caused by human error.*

*Auditor's Response – The CEO has been unable to support their contention that the duplicates may have been caused by human error. The CEO needs to conclusively determine the cause (program or otherwise) of the duplicate payments, and implement appropriate corrective action.*

- **Improve and Adhere to System Change Control Policies:** The CEO needs to maintain documentation to support GenIRIS system change requests, approvals, and test results, as required by their change control policy. In addition, the CEO needs to enhance their change control policies by requiring system changes to be developed and tested in a test environment, and ensuring that all incompatible change control duties are adequately separated.

*CEO's Response – The CEO's attached response indicates that they implemented new change control policies in November 2013. The CEO believes these changes,*

*in conjunction with the adoption of Claims Vision in Fiscal Year 2014-15, will resolve the change control issues identified by the A-C.*

- **Develop a Business Continuity Plan:** The CEO needs to develop and periodically test a Business Continuity Plan (BCP) for the GenIRIS system, including the interface to eCAPS. The BCP should identify critical system files and programs, and specify the responsibilities and tasks to be undertaken by key personnel in the event of a disaster.

*CEO's Response – The CEO's attached response indicates that the department will continue to develop its BCP for GenIRIS and the corresponding interfaces.*

The implementation statuses of the 21 recommendations from our July 2007 report, and details related to the 24 new recommendations, are included in the attached report (Attachment I).

### **Review of Report**

We discussed our report with CEO management. The Department's attached response (Attachment II) indicates agreement with most of our findings and recommendations, and describes actions they have taken or plan to take to implement our recommendations.

We thank CEO management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

JN:AB:RS:TK

### **Attachments**

c: William T Fujioka, Chief Executive Officer  
Mark J. Saladino, Treasurer and Tax Collector  
Audit Committee  
Public Information Office

**CHIEF EXECUTIVE OFFICE  
WORKERS' COMPENSATION PAYMENT PROCESS  
FOLLOW-UP REVIEW**

**Background**

The Chief Executive Office's (CEO) Risk Management Branch (RMB) is responsible for processing workers' compensation payments to injured employees and related service providers (e.g., doctors, laboratories, physical therapists, etc.). The CEO contracts with three Third Party Administrators (TPAs) and three Medical Management Companies (MMCs) to perform workers' compensation claims evaluation and to administer workers' compensation payments. GenIRIS (previously known as GENCOMP) is the system used by the CEO and TPAs to process workers' compensation payments and maintain workers' compensation data. In Fiscal Year (FY) 2011-12, the County issued approximately 523,899 workers' compensation payments, totaling \$333.3 million.

The TPAs receive claims/invoices from employees and service providers for review and approval. TPA claims adjusters review case files and information on GenIRIS to ensure the services claimed/invoiced are consistent with the worker's injury prior to approving payments. TPAs send service provider invoices to the MMCs, who determine the amount the County should pay based on the appropriate fee schedule. After approval, the TPAs use GenIRIS to submit the claims/invoices to RMB for payment through the County's electronic Countywide Accounting and Purchasing System (eCAPS). RMB's role is to provide on-site monitoring of the claims services provided by each TPA, and to ensure the timely and accurate payment of claims/invoices.

**Scope of Review**

In our July 9, 2007 report on the workers' compensation payment process, we made 26 recommendations related to the CEO's monitoring of the TPAs' payment processing; the TPAs' compliance with payment processing procedures; data security; and access and processing controls over GenIRIS.

During this follow-up, we reviewed 21 of the 26 recommendations. Of the 21 recommendations, we noted that the CEO had fully implemented five and substantially or partially implemented 16 recommendations. Following is a discussion of the implementation status for the 21 recommendations, as well as the 24 new recommendations developed during this follow-up review. In a subsequent review, we will follow-up on both new and existing recommendations that are not indicated as implemented within this report.

**Status of Recommendations****Reconciliation of Vendor Information and Miscellaneous Vendor Payments****Recommendation 1**

Chief Executive Office management continue to work with Auditor-Controller eCAPS personnel and complete a reconciliation of vendor information between GenIRIS and eCAPS.

**Recommendation 2**

Chief Executive Office management perform an automated reconciliation of the information on GenIRIS with the eCAPS vendor file on a bimonthly basis.

**Recommendation 3**

Chief Executive Office management continue to work with the Auditor-Controller to develop a method to ensure mismatches are corrected, and the information on GenIRIS and the eCAPS vendor tables are current and accurate so that payments are sent to the appropriate vendors' correct addresses.

**Recommendation 4**

Chief Executive Office management use automated procedures to detect vendors receiving payments under Miscellaneous Vendor Codes and add/update approved vendors to minimize use of the Miscellaneous Vendor Codes.

**Recommendation 5**

Chief Executive Office management review payments in the hold file to correct mismatched addresses and add/update approved vendors to the eCAPS vendor file on a continuous basis.

**Current Status of Recommendations 1 - 5: PARTIALLY IMPLEMENTED**

In our 2007 review, we noted that when GenIRIS and eCAPS vendor addresses did not match, GenIRIS was programmed to direct payments to alternate eCAPS vendor addresses, which were at times incorrect, causing the payments to be undeliverable. During our 2007 review, the CEO began placing payments in a hold file for 30 days when certain vendor information (i.e., Taxpayer Identification Numbers (TINs) and/or addresses) did not agree between eCAPS and GenIRIS, and discontinued sending payments to alternate vendor addresses. The purpose of the hold file was to allow CEO staff time to reconcile vendor information in eCAPS and GenIRIS to ensure the correct address and/or TIN was in both systems. If the CEO did not correct the mismatches within 30 days, the payments were issued using Miscellaneous Vendor (MV) codes with

the vendor information from GenIRIS. Because the CEO was not correcting all mismatched vendor information, this created a serious control concern as payments using MV codes bypass fundamental eCAPS vendor payment accountability controls.

As a result, in 2007 we recommended that the CEO minimize the use of MV codes by reconciling GenIRIS and eCAPS vendor information; completing bi-monthly reconciliations thereafter; and developing a method (i.e., review payments in the hold file and update eCAPS accordingly) to correct mismatches on an on-going basis.

Our current review indicates that:

- The CEO has not completed a reconciliation of the two systems' vendor information. In March 2008, the CEO attempted to reconcile the vendor information between the two systems, and identified 4,430 (25%) of 17,955 active GenIRIS vendor records that did not match eCAPS vendor records. However, the CEO did not correct the mismatches, resulting in their continued use of MV codes.
- In May 2011, the CEO began reconciling information for vendors that received the largest number of MV payments. In FY 2011-12, there were 2,257 vendors that received 156,245 recurring MV payments. However, as of September 2012, the CEO had only reconciled 34 vendors.
- In June 2012, because the CEO was not correcting mismatches in the hold file, they eliminated the hold file entirely. The CEO needs to consider reestablishing the hold file to allow time to correct mismatches before the payments are issued using MV codes.
- In July 2012, the CEO reconvened a workgroup that included the Auditor-Controller (A-C) to discuss other methods for improving the CEO's ability to identify and correct mismatched vendor records. The CEO agreed to evaluate these methods and is in the process of developing a plan for reconciling vendor information.

We also noted that the CEO established a "bypass list" of 1,527 vendor TINs that automatically issue payments using MV codes instead of using approved eCAPS vendor codes, as required by County Fiscal Manual (CFM) Section 4.5.12. The CEO indicated that they established the bypass list within the GenIRIS/eCAPS interface, because of problems with the vendor matching routine between the two systems. For example, the GenIRIS/eCAPS interface is programmed to match vendors from GenIRIS to eCAPS based on the TIN and zip code. When multiple addresses within the same zip code are associated with a vendor record in eCAPS, the matching routine may not always select the correct address in eCAPS. The bypass list allows payments to be issued using MV codes with the vendor information (i.e., TIN and/or address) from GenIRIS. The CEO should review the programming logic in their vendor matching routine to ensure that the correct vendor address is selected.

We also noted that the bypass list includes 36 unique TINs that do not currently exist in GenIRIS. Between 2005 and 2010, the CEO issued 1,378 MV payments, totaling \$1.8 million, to eight of these 36 TINs. We did not note any payments to the remaining 28 TINs. The CEO indicated that the discrepancies between GenIRIS and the bypass list may be the result of staff updating vendor information (i.e., TINs) in GenIRIS, but not updating the bypass list. These vendors have been referred back to the CEO for further research.

The unreconciled GenIRIS and eCAPS vendor records, the elimination of the hold file, and the bypass list have contributed to a significant increase in the number of MV payments since our original review. As noted in Table 1, below, MV payments increased between FY 2005-06 and FY 2011-12 from 20,126 to 156,245, an increase of 136,119 (676%). It should also be noted that, because MV payment activity is not tied to specific vendors in eCAPS, payment activity in eCAPS for these vendors was understated by \$75.3 million in FY 2011-12.

**MISCELLANEOUS VENDOR PAYMENTS  
BY FISCAL YEAR  
TABLE 1**

<b>FY</b>	<b># of MV Payments</b>	<b># of All WC Payments</b>	<b>% of MV Payments</b>	<b>MV Payments (in millions)</b>	<b>All WC Payments (in millions)</b>
2005-06	20,126	484,246	4.20%	\$13.9	\$268.3
2006-07	74,786	444,077	16.80%	\$46.1	\$276.9
2007-08	129,741	435,819	29.80%	\$48.2	\$281.0
2008-09	167,436	447,375	37.40%	\$63.3	\$282.4
2009-10	191,726	466,241	41.10%	\$73.0	\$293.7
2010-11	230,142	497,489	46.30%	\$89.3	\$313.7
2011-12	156,245	523,899	29.80%	\$75.3	\$333.3

As noted above, the CEO reconciled 34 vendors they identified as receiving the largest number of MV payments. We reviewed FY 2011-12 payment data for five of the 34 vendors, and noted that they accounted for approximately 42,466 (57%) of the 73,897 decrease in MV payments between FYs 2010-11 and 2011-12. The CEO needs to continue these reconciliation efforts to further reduce MV payments.

As previously recommended, the CEO needs to immediately reconcile the GenIRIS and eCAPS vendor records to correct mismatches, and perform bi-monthly reconciliations thereafter. The CEO also needs to consider reestablishing the hold file to allow them time to correct mismatches before MV payments are issued; review the programming logic in the vendor matching routine to ensure that the correct vendor address is selected; and immediately stop using the bypass list.



**New Recommendations****Chief Executive Office management:**

1. Consider reestablishing the hold file to allow the Chief Executive Office time to correct mismatches before Miscellaneous Vendor payments are issued.
2. Review the programming logic in the GenIRIS/eCAPS vendor matching routine to ensure that the correct vendor address is selected.
3. Immediately stop using the bypass list.

**Controls Over the GenIRIS Vendor Table****Recommendation 6**

Chief Executive Office management with assistance from the Auditor-Controller develop and implement strict, redundant controls for adding vendors to GenIRIS, modeling the controls used by the Auditor-Controller to add vendors to the eCAPS vendor table, including comparing Taxpayer Identification Numbers to Internal Revenue Service records and using address validation software to verify that the addresses exist.

**Current Status: SUBSTANTIALLY IMPLEMENTED**

**Recommendation 7**

Chief Executive Office management with assistance from the Auditor-Controller use automated procedures to review the GenIRIS vendor table to eliminate duplicate records and identify incomplete records for corrective action.

**Current Status: IMPLEMENTED**

**Recommendation 8**

Chief Executive Office management with assistance from the Auditor-Controller implement strict controls to deactivate and secure known bad addresses in GenIRIS to prevent them from being used, and deactivate the bad addresses in the eCAPS vendor table.

**Current Status: PARTIALLY IMPLEMENTED**

Our prior review identified the need for the CEO to implement stricter controls over the creation of vendor information within GenIRIS, identify and delete redundant and/or incorrect vendor information in GenIRIS, and (as noted above) reconcile and

synchronize GenIRIS and eCAPS vendor information. The CEO has made progress toward implementing our audit recommendations. For example:

- The CEO now compares vendor names and TINs against Internal Revenue Service (IRS) records. For vendors who do not match IRS records, the CEO requires vendors to submit a signed IRS TIN form (W-9) certifying that they have provided the correct TIN. However, the CEO can further improve controls for adding vendor information to GenIRIS by using address validation software to verify each vendor's address.
- The CEO developed standardized forms and instructions to add/update vendor information in GenIRIS to prevent discrepancies/mismatches. The CEO can improve the use of these forms and instructions by developing written procedures for adding, updating, and deactivating vendor records (e.g., establishing timeframes for adding/updating vendor information; standardizing the entry of vendor information into GenIRIS and eCAPS; identifying CEO sections responsible for performing each step; etc.).
- The CEO indicated that, in April 2009, they used automated procedures to review the 80,044 vendor records in GenIRIS and identified and deactivated 52,121 (65%) vendor records that they determined to be unused, incomplete, or duplicate, or that had bad addresses. However, we noted that the CEO still needs to work with the A-C to deactivate any corresponding vendor records in eCAPS.

In May 2012, we reviewed 29,798 active GenIRIS vendor records and noted 1,186 (4%) duplicate vendor records and an immaterial number of vendor records with missing information (e.g., street address, state, zip code, TIN, etc.). We also noted that approvals were not required to reinstate inactive vendor records. The CEO needs to periodically review GenIRIS to identify and deactivate unused, incomplete, or duplicate vendor records, or vendor records with bad addresses, and require approvals to reactivate these vendors.

### **New Recommendations**

#### **Chief Executive Office management:**

- 4. Develop written procedures for adding, updating, and deactivating GenIRIS vendor records.**
- 5. Periodically review the GenIRIS vendor table to identify and correct or deactivate unused, incomplete, or duplicate vendor records, or vendor records with bad addresses.**
- 6. Establish procedures for supervisory review and approval to reinstate inactive vendors in GenIRIS.**

**TPA Payment Controls****Recommendation 9**

**Chief Executive Office management take action to increase its monitoring of Third Party Administrators and Medical Management Companies to ensure they comply with established payment control requirements.**

**Current Status: PARTIALLY IMPLEMENTED**

As previously noted, the TPAs are responsible for evaluating claims/invoices to ensure the services are consistent with the worker's injury, and for approving and issuing payments to employees and service providers. The MMCs' role is to determine the amount the County should pay service providers based on the appropriate fee schedule. In our 2007 review, most of the findings pertained to the TPAs' role in processing and approving payments. For example, we noted that some TPA staff were not always complying with established payment controls, sometimes intentionally, resulting in inappropriate payments (i.e., duplicate payments, overpayments, and split payments). As a result, our current review focused on the steps the CEO has taken to increase its monitoring of the TPAs and to improve payment processing, as follows:

- In 2007, the CEO began informally reviewing samples of payments processed by TPAs to ensure compliance with the CEO's payment processing controls. In 2008, the CEO merged the payment processing reviews with the CEO's existing annual claims audits for each TPA location, adding a fiscal component to their monitoring, which previously focused on the administration of workers' compensation claims.
- In 2007, the CEO issued a memo to the TPAs reiterating the CEO's policies for processing payments (e.g., splitting payments, approving payments, etc.) and required TPAs to post and adhere to the policies.

Based on our review of the CEO's monitoring process and our review of a sample of payments, it appears that the CEO's monitoring is not sufficiently detecting, correcting, and improving TPAs' compliance with payment processing controls, as discussed below.

**Monitoring of TPAs**

We reviewed the fiscal monitoring component of the CEO's calendar year 2010 annual TPA audits and noted the following:

- The CEO did not issue formal reports to TPAs on the results of their audits.
- The CEO did not follow-up to ensure TPAs corrected deficiencies identified during the audits.

- The CEO's documentation lacked sufficient details to support their audit findings.

We also noted that the CEO monitors are assigned to review/monitor TPA locations where they may have previously reviewed or approved payments. This creates an inherent conflict of interest.

To fully implement this recommendation, the CEO needs to significantly improve/enhance its current monitoring efforts by correcting the deficiencies noted above. In addition, the CEO should increase the frequency of monitoring by conducting ongoing payment reviews at each TPA for a sample of payments across all approval thresholds, including payments deemed to be of higher risk, to ensure compliance with established payment controls and procedures. Ongoing payment reviews can detect non-compliance timely, allow for timely corrective action, and can help deter inappropriate payment activity. We also noted that the CEO did not rotate their monitors between TPA locations. Staff rotations would enhance each monitor's independence and the integrity of the monitoring process.

### **New Recommendations**

#### **Chief Executive Office management:**

- 7. Conduct ongoing payment reviews at each Third Party Administrator for a sample of payments across all approval thresholds, including payments deemed to be of higher risk, to ensure compliance with established payment controls and procedures.**
- 8. Periodically rotate the assignments of Third Party Administrator monitors.**

### **Payment Controls**

To evaluate the TPAs' compliance with established payment controls, we reviewed a sample of 231 payments totaling \$461,493. Our sample included potential duplicate and/or split payments, and payments to vendors performing transportation or private investigator services. We noted the following:

**Duplicate Payments** – 24 (10%) payments, totaling \$23,974, were duplicates. For 12 of the duplicate payments, totaling \$9,629, TPA staff reviewed their own work and manually released the payments by overriding system controls that identified the payments as potential duplicates, based on the payments having the same payee name and overlapping service dates. The remaining 12 payments were not flagged as potential duplicates because TPA staff either entered different service dates or a different payee name when paying the same set of invoices.

**Split Transactions** – Four (2%) payments, totaling \$9,484, appeared to have been split to circumvent the requirement for a second approval on payments over \$4,000. For

example, TPA staff appears to have intentionally split a \$5,000 advance on a settlement award into two \$2,500 payments, and entered different service dates for these payments to avoid the appearance of a possible duplicate payment. We also noted that the supporting documentation used to issue these payments was for services unrelated to the settlement award.

**Inadequate Support Documentation** – Documentation in support of 44 (19%) transportation payments, totaling \$133,576, was missing key information that would enable TPA staff to verify the accuracy of charges. For example, for one payment totaling \$26,833, the invoices lacked details (e.g., fees related to each segment of a trip, start/destination addresses, etc.) that would enable a reviewer to calculate/support the total charges billed. TPA staff did not follow-up with the vendor until we brought these issues to their attention.

**Other Payment Control Issues** – We also noted instances where invoices to support payments were missing, TPA staff did not select the correct payee in GenIRIS, and not all payments were marked paid to prevent reuse.

These payment control findings are similar to those noted in our 2007 review, and indicate that CEO still needs to improve its monitoring of the TPAs, as previously recommended. We also noted that TPA staff are not conducting thorough reviews of vendor invoices prior to approving payments. Although three (75%) of the four TPA locations had some written invoice review procedures, the procedures either lacked details about steps staff should take when validating invoiced charges, or were not consistently being followed. The CEO needs to ensure that TPAs develop standardized invoice review procedures that are sufficiently detailed, and that TPA staff follow the procedures. For example, the procedures should specify the supporting documentation needed and the steps TPA staff should take when verifying the accuracy and appropriateness of invoiced amounts.

### **New Recommendation**

- 9. Chief Executive Office management ensure Third Party Administrators develop standardized invoice review procedures for Third Party Administrator staff, and review these procedures to ensure they are sufficiently detailed.**

### **Non-medical Vendor Selection Process**

We also noted that TPAs appear to have a significant amount of discretion over the selection and use of non-medical vendors (e.g., transportation vendors). This may not always result in obtaining the best service at the lowest possible cost or ensure services are distributed fairly to qualified vendors. For example, we noted that one transportation vendor charges fees that do not appear reasonable or consistent with fees other transportation vendors charge. We also noted that TPAs do not have formal agreements or contracts with these vendors, making it difficult to hold vendors

accountable for "agreed-upon" items (e.g., maintaining appropriate licenses, insurance, etc.), and possibly exposing the County to significant additional liability. The CEO should evaluate the feasibility of requiring TPAs to competitively bid for non-medical services, create lists of qualified vendors, and establish contracts with the selected vendors. The bid evaluation should consider the quality and all costs associated with the service. The CEO should also require TPAs to develop a method, approved by the CEO, for rotating these vendors to ensure services are fairly distributed.

### **New Recommendations**

#### **Chief Executive Office management:**

- 10. Evaluate the feasibility of requiring Third Party Administrators to competitively bid for non-medical services, create lists of qualified vendors, and establish contracts with the selected vendors.**
- 11. Require Third Party Administrators to develop a method for rotating non-medical services vendors to ensure services are fairly distributed.**

### **Recommendation 10**

**Chief Executive Office management evaluate the feasibility of lowering the threshold dollar amount so that more payments require a second approval and for requiring County monitor approvals.**

#### **Current Status: IMPLEMENTED**

During our 2007 review, we noted that payments less than \$4,000 only require one approval by TPAs, and County monitors assigned to TPAs only approve payments over \$7,500. We also noted that 99% of all workers' compensation and service provider payment transactions, or 76% of total workers' compensation dollars, were for payments with only one TPA approval at the time payments were made.

As recommended, the CEO evaluated the feasibility of lowering the payment threshold for payments requiring a secondary approval and determined that it was not feasible. For example, the CEO noted that by lowering the threshold to \$1,000, the TPA supervisors' workload would increase by approximately 600%. The CEO performed similar analyses at different thresholds and arrived at similar conclusions.

As a result, we consider this recommendation implemented because of the CEO's efforts to evaluate the feasibility of lowering the approval threshold. However, since the intent of our original recommendation was to ensure secondary approvals were applied to a significantly larger number of payments and, due to the serious payment control issues noted in our 2007 and current reviews, the CEO needs to develop and implement alternatives for requiring TPAs to apply secondary approvals to a larger number of payments. This may include applying a secondary approval to those

payments deemed to be of higher risk (e.g., potential duplicates, transportation payments, etc.).

### **New Recommendation**

- 12. Chief Executive Office management develop and implement alternatives for requiring Third Party Administrators to apply secondary approvals to a larger number of payments, which may include payments deemed to be of higher risk (e.g., potential duplicates, transportation payments, etc.).**

### **Separation of Duties**

#### **Recommendation 11**

**Chief Executive Office management take immediate action to ensure that Third Party Administrators implement and maintain proper separation of duties and controls related to creating cases, authorizing payments, entering payment approvals and changing payment information, such as address changes for service providers and injured workers.**

**Current Status: IMPLEMENTED**

#### **Recommendation 12**

**Chief Executive Office management immediately increase its monitoring of the Third Party Administrators' separation of duties to ensure the prescribed internal controls remain in force.**

**Current Status: SUBSTANTIALLY IMPLEMENTED**

During our 2007 review, we noted serious internal control weaknesses over the processing of payments to vendors and injured employees. Specifically, we noted some TPA staff who could create cases in GenIRIS could also enter, modify, and approve payments on those cases. We also noted that some TPA staff could change payee information, such as mailing addresses.

We recommended that the CEO take immediate action to ensure that TPAs implement and maintain proper internal controls. To address our recommendations, the CEO:

- Reviewed GenIRIS user profiles, and separated the incompatible duties of case creation, payment processing, and payment approvals. In our current review, we reviewed user profiles, and did not note any TPA staff with incompatible duties. However, we did note one CEO employee who could create cases and process, approve, and release payments. The CEO needs to properly separate the duties

of CEO staff to ensure they cannot both create claims and process or approve payments.

- Implemented password controls in GenIRIS to restrict access to the screens for creating cases, and approving and releasing payments. However, we noted that users can still gain access to these screens if they obtain the required passwords. The CEO needs to strengthen GenIRIS security profiles to block system users from accessing incompatible functions, and ensure users cannot access screens that are not needed to perform their job duties.
- Issued a memo to the TPAs in January 2007 restating the CEO's policy requiring proper separation of duties for payment processing.
- Developed monitoring reports for TPAs that identify when changes have been made to payments (e.g., payee, amount, etc.) in GenIRIS after the payments have been approved/authorized for release. However, we noted that TPAs do not keep copies of the reports documenting their review and disposition of each exception on the monitoring reports. In addition, the CEO was not following up to ensure TPAs were properly reviewing the exception reports.

Although the CEO developed monitoring reports that identify when changes have been made to payment information in GenIRIS, the CEO can further improve its controls over payment processing by evaluating the feasibility of modifying GenIRIS to either prevent changes to payments after they have been approved/authorized for release, or require approvals for payment changes.

In addition, to improve monitoring of TPAs' separation of duties, the CEO needs to require TPAs to document their review of monitoring reports, review supporting documentation for exceptions to ensure changes are appropriate, disposition each exception, and retain documentation supporting their reviews. The CEO should also follow-up to ensure TPAs are performing these reviews.

### **New Recommendations**

#### **Chief Executive Office management:**

- 13. Ensure Third Party Administrator staff and Chief Executive Office employees cannot access GenIRIS screens that are not needed to perform their job duties.**
- 14. Require Third Party Administrators to document their review of monitoring reports, review supporting documentation for exceptions to ensure changes are appropriate, disposition each exception, and retain documentation supporting their reviews. The Chief Executive Office should follow-up to ensure Third Party Administrators perform the reviews.**



15. Evaluate the feasibility of modifying GenIRIS to either prevent changes to payments after they have been approved/authorized for release, or require approvals for payment changes.

### **System-Generated Duplicate Payments**

#### **Recommendation 13**

Chief Executive Office management work with Auditor-Controller staff to identify all duplicate payments caused by GenIRIS/eCAPS interface and take steps to recover the overpayments.

**Current Status: PARTIALLY IMPLEMENTED**

#### **Recommendation 14**

Chief Executive Office management identify and correct the GenIRIS/eCAPS interface system program errors that allow duplicate payments to be created.

**Current Status: PARTIALLY IMPLEMENTED**

#### **Recommendation 15**

Chief Executive Office management develop and maintain documentation for the GenIRIS/eCAPS interface.

**Current Status: PARTIALLY IMPLEMENTED**

In our 2007 report, we noted that the GenIRIS/eCAPS interface does not prevent duplicate payments. Between July 2005 and March 2006, we identified what appeared to be 536 duplicate payments, totaling \$242,022. The CEO confirmed that 268 (50%) of the payments, totaling \$121,011, were duplicates. Due to a lack of GenIRIS system documentation, we were unable to determine why the duplicate payments occurred. During our follow-up review, we noted that the CEO has made progress in implementing our prior recommendations. For example:

- The CEO recovered 199 (74%) of the 268 duplicate payments, totaling \$76,966. However, 69 of the duplicate payments, totaling \$44,045, remain uncollected. CFM Section 10.2.0 requires departments to make at least three attempts to contact the payee over a 45-day period, and refer uncollected accounts to the Treasurer and Tax Collector (TTC) after exhausting internal collection efforts.

The CEO indicated that they made three attempts by mail to recover the duplicate payments. We reviewed the CEO's collection letters for a sample of five vendors. For one vendor, the CEO lacked documentation for two of the three collection attempts, and for four vendors, the CEO's three collection

attempts occurred over a four-year period. In addition, the CEO did not keep signed copies of their collection letters for all five vendors.

The CEO indicates that they are currently working with TTC to refer the uncollected accounts to a third-party collection agency. However, the CEO has indicated that the four-year statute of limitations has elapsed, which may result in losses totaling \$44,045. The CEO indicated they are developing procedures on the number and frequency of collection attempts, and the timeliness of referring delinquent accounts to TTC.

- In 2011, the CEO began monitoring payment activity for possible duplicates, identifying one system-generated duplicate payment for \$139. However, the CEO did not review payment activity dating back to our 2007 review. As a result, we reviewed workers' compensation payments between July 2007 and March 2012 and noted an additional 14 duplicate payments, totaling \$15,242. The CEO did not identify these duplicates because they occurred before the period they started monitoring. Similar to our original review, the CEO was unable to explain what program errors caused the duplicate payments.
- The CEO developed documentation for the GenIRIS/eCAPS interface, including flowcharts depicting the flow of payment information between GenIRIS and eCAPS. The A-C and Chief Information Office independently reviewed the documentation, and noted that it needs additional details to allow someone other than the original designer of the system to understand, review, and maintain the system, as required by CFM Section 8.7.1. For example, the documentation does not give the names of the files and programs used by the interface, where the files and programs can be found, or what data the files contain. The lack of detail complicates the CEO's efforts to identify and correct the cause of the system-generated duplicates.

The CEO needs to continue to monitor for duplicate payments until they can identify and correct the cause of the system-generated duplicates, and recover all overpayments. The CEO also needs to enhance their system documentation to include sufficient details to allow someone other than the original designer of the system to understand, review, and maintain the system.

### **New Recommendations**

#### **Chief Executive Office management:**

- 16. Continue to develop procedures for collecting and referring delinquent accounts in accordance with County Fiscal Manual requirements, and monitor for compliance.**
- 17. Maintain signed copies of collection letters and other documentation of collection attempts.**

18. Enhance their GenIRIS/eCAPS interface system documentation to include sufficient details to allow someone other than the original designer of the system to understand, review, and maintain the system.

### **Workers' Compensation Data Security**

#### **Recommendation 16**

**Chief Executive Office management ensure that workers' compensation data is not backed-up on an unsecured, unencrypted hard drive, and limit off-site access, if necessary, to a secure connection, such as Virtual Private Network.**

#### **Current Status: IMPLEMENTED**

In our July 9, 2007 report, we noted that one CEO employee used an unsecured, unencrypted portable hard drive to store confidential data, such as vendor/employee names, Social Security Numbers/TINs, and addresses. The employee indicated that the drive was used to back-up data files and for off-site access to workers' compensation data. We found no operational need for such off-site access. During our prior review, the CEO advised us that, effective April 2006, the practice of using a portable hard drive to back-up workers' compensation data was discontinued.

During this follow-up review, we noted that the CEO developed procedures prohibiting the use of unauthorized, unencrypted portable storage devices. In addition, the procedures only allow off-site access through a secure connection, such as a Virtual Private Network (VPN), and require management approval for remote access. Staff requesting remote access must also sign an acknowledgement that they have read and will adhere to County and CEO acceptable Information Technology (IT) use policies.

We reviewed a sample of five staff with VPN access and determined that all five had the required remote access approvals and signed acknowledgement forms in their personnel files.

Based on our review of the CEO's procedures, and the CEO's compliance with those procedures, we consider this recommendation to be implemented.

#### **Recommendation 17**

**Chief Executive Office management separate the duties of system administrator, programmer, database administrator, and payment processor.**

#### **Current Status: PARTIALLY IMPLEMENTED**

In our 2007 report, we noted that one person was assigned as the GenIRIS system administrator, programmer, and database administrator, and was responsible for

transmitting payment transactions to eCAPS. We recommended the CEO separate these duties to reduce the risk of unauthorized transactions and system changes.

During this follow-up review, we noted that the CEO reassigned responsibility for transmitting payment transactions to eCAPS to staff with no other system responsibilities. However, the same individual identified during our original review continues to perform the duties of system administrator, programmer, and database administrator. This lack of separation of duties could result in system changes that could allow unauthorized transactions, including payments, to go undetected.

We also noted that the CEO lacks designated back-up personnel for the duties noted above, and is at risk of disruptions to system operations if the primary personnel is unavailable.

To fully implement this recommendation, the CEO needs to separate the duties of system administrator, programmer, and database administrator to reduce the risk of unauthorized transactions and system changes. In addition, the CEO needs to designate and train back-up personnel who can perform the GenIRIS system administrator, programmer, and database administrator duties.

#### **New Recommendation**

- 19. Chief Executive Office management designate and train back-up personnel who can perform the GenIRIS system administrator, programmer, and database administrator duties.**

#### **Recommendation 18**

**Chief Executive Office management develop written policies to safeguard workers' compensation data.**

#### **Current Status: IMPLEMENTED**

In our July 9, 2007 report, we noted that the CEO did not have written policies to safeguard workers' compensation data, such as policies related to the use of portable equipment, backing-up workers' compensation data, and off-site access.

During this follow-up review, we noted that the CEO developed written policies for safeguarding workers' compensation data. The policies include key areas such as: Privacy and Confidentiality of Data, Anti-Virus Security, Data Integrity, Physical Security, Password Security, and Use of Electronic Email.

We reviewed and compared the CEO's policies to CFM and Board of Supervisors' IT policies and noted that the CEO's policies appear to adequately address the safeguarding of workers' compensation data. We consider this recommendation to be implemented.

**GenIRIS Access Controls****Recommendation 19**

**Chief Executive Office management modify GenIRIS automated access controls to address the weaknesses noted in our review.**

**Current Status: SUBSTANTIALLY IMPLEMENTED**

During our 2007 review, we noted that GenIRIS access controls did not meet CFM Section 8.6.4 requirements. Table 2 identifies these access control concerns:

**GenIRIS ACCESS CONTROLS  
TABLE 2**

1.	User passwords do not expire.
2.	User passwords can be shorter than six characters.
3.	Users can reuse their previous passwords.
4.	User accounts are not deactivated when not used within a specified timeframe.
5.	User sessions are not automatically ended after a period of inactivity.
6.	Generic user IDs were used and the system could not identify the specific employee who processed a transaction.
7.	User accounts were not locked after a number of failed logon attempts.
8.	There was no periodic review to ensure access is commensurate with each user's job responsibilities.

After our 2007 review, the CEO indicated that the GenIRIS system upgrades would address several of the weaknesses discussed above. During this follow-up review, we noted that six (see Table 2, controls 1 through 6) of the eight control concerns have been resolved.

We noted additional opportunities for improvement of GenIRIS' access controls as follows:

- GenIRIS currently locks user accounts after eight consecutive failed logon attempts (refer to Table 2, control 7). However, the system automatically unlocks the account and resets the failed logon counter to zero after 30 minutes. This weakens the effectiveness of this control by allowing a user an unlimited number of logon attempts. Due to the confidential nature of the data in GenIRIS, the CEO should reduce the number of failed logon attempts required to lock a user account, and verify a user's identity before unlocking a locked account. We confirmed with the vendor that GenIRIS can be configured to reduce the number of failed logon attempts required to lock an account, and to stop automatically unlocking locked user accounts. The CEO should request the vendor to make these changes.

- The CEO does not periodically review all users' access to ensure it is consistent with their job duties (refer to Table 2, control 8). In addition, although the CEO performs limited reviews of some users' access when TPAs request user access changes, the CEO does not maintain documentation to support their reviews. We also noted that the same individual who assigns user access performs these reviews. As previously noted, the CEO needs to periodically review all users' access to ensure it is consistent with their job duties, and maintain documentation to support their reviews. In addition, the CEO needs to separate the duties of assigning user access and performing user access reviews.

During our review, we noted that the CEO developed reports to monitor failed logon attempts, expired passwords, and deactivated user accounts. However, the reports only list the user, and do not include other information (e.g., the number, location, and date/time of failed logon attempts) that would enable the CEO to investigate user access exceptions. The CEO should modify GenIRIS access monitoring reports to include information that would allow management to detect potentially unauthorized or inappropriate activity.

### **New Recommendations**

#### **Chief Executive Office management:**

20. Request the vendor to configure GenIRIS to reduce the number of failed logon attempts required to lock an account, and to stop automatically unlocking locked user accounts.
21. Separate the duties of assigning GenIRIS user access and performing user access reviews.
22. Modify GenIRIS access monitoring reports to include additional information (e.g., the number, location, and date/time of failed logon attempts, etc.) that would enable the Chief Executive Office to detect potentially unauthorized or inappropriate activity.

### **Change Controls/Business Continuity Plan**

#### **Recommendation 24**

**Chief Executive Office management develop and implement a formal change control policy for its computer applications.**

#### **Current Status: PARTIALLY IMPLEMENTED**

The CFM requires departments to have controls over how changes to computer systems are tested, approved, and documented. Change controls are intended to reduce the risk of unauthorized changes and ensure that all changes are properly tested

and approved by management. In our 2007 review, we noted the CEO did not have formal controls over changes to its computer applications. We recommended the CEO develop and implement a formal change control policy for its computer applications.

On January 25, 2012, the CEO issued a written change control policy for its computer applications, including the GenIRIS/eCAPS interface. Based on our review, we noted that the CEO does not comply with their change control policy. Specifically, the CEO does not maintain a centralized log of change requests, including supporting documentation, approvals, and test results. Due to the lack of documentation, we were unable to determine if system changes are properly approved and tested before being placed in production. The lack of change control documentation, combined with inadequate system documentation, discussed previously, contributes to the CEO's inability to support that they have corrected the program errors causing system-generated duplicates.

We also noted that the CEO can strengthen their change control policy by:

- Establishing criteria requiring post-implementation review and approval of emergency system changes.
- Requiring system changes to be developed and tested in a test environment. Developing and testing changes in a test environment helps to ensure the system functions as expected before changes are put into production. The CEO does not currently have a test environment for the interface.
- Establishing criteria ensuring that all incompatible change control duties are properly separated. For example, those responsible for developing system changes should not have access to the production environment.

To fully implement this recommendation, the CEO needs to maintain documentation to support system change requests, approvals, and test results, as required by their policy. In addition, the CEO needs to enhance their change control policies to address the areas noted above.

#### **New Recommendation**

- 23. Chief Executive Office management enhance their change control policies to address the areas noted above.**

#### **Recommendation 25**

**Chief Executive Office management develop and test a Business Continuity Plan for GenIRIS.**

**Current Status: PARTIALLY IMPLEMENTED**

The CFM requires departments to develop and periodically test a Business Continuity Plan (BCP) for all mission-critical systems to ensure operations could be promptly restored in the event of disasters, such as earthquake, fire, sabotage, etc. During our 2007 review, we noted the CEO did not have a BCP for the GenIRIS system.

We noted that the CEO still has not developed their own BCP for the GenIRIS system, including the interface to eCAPS. We also noted that the contract with the GenIRIS vendor requires the vendor to maintain a BCP for GenIRIS and provide annual updates to the CEO. However, the CEO has not followed-up with the vendor for BCP updates, and has not verified that the vendor has tested their BCP.

GenIRIS is a mission-critical system for the County. Therefore, the CEO needs to develop and periodically test a BCP for GenIRIS. The CEO's BCP should identify critical system files and programs, and detail the responsibilities and tasks to be undertaken by key personnel in the event of a disaster. The CEO also needs to periodically follow-up with the vendor to ensure the vendor periodically tests their BCP, obtain and evaluate the results for each test, and work with the vendor to resolve any issues.

#### **New Recommendation**

- 24. Chief Executive Office management ensure the vendor periodically tests their Business Continuity Plan, obtain and evaluate the results of each test, and work with the vendor to resolve any issues.**





# County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 713, Los Angeles, California 90012  
(213) 974-1101  
<http://ceo.lacounty.gov>

Attachment II

WILLIAM T FUJIOKA  
Chief Executive Officer

February 5, 2014

To: Wendy L. Watanabe  
Auditor-Controller

From: William T Fujioka  
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. Fujioka", with a long horizontal line extending to the right.

Board of Supervisors  
GLORIA MOLINA  
First District

MARK RIDLEY-THOMAS  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

## WORKERS' COMPENSATION PROGRAM AUDIT RESPONSE

In 2007 and 2012, the Department of Auditor-Controller (A-C) performed an audit and follow-up review of the County of Los Angeles (County) Workers' Compensation (W/C) program processes administered by the Chief Executive Office (CEO). Attached are the specific recommendations and responses.

The W/C program mandate is to ensure the full provision of benefits under the law to employees whose injuries arose out of, and in the course of, employment. As such, the program is bound by a complex set of statutory and regulatory requirements that present inherent risk. Currently, the program issues approximately 450,000 payment request transactions annually. These transactions involve daily collaboration with multiple CEO groups, including Information Technology Services, Budget and Fiscal Services, and the Risk Management Branch.

In 1986, the County outsourced W/C claims management services to private sector third party administrators (TPAs). Established internal control processes considered the contractual relationship between the County and TPAs, internal control costs, and the unique exposures associated with the California W/C environment. A-C's efforts to improve and strengthen such controls are appreciated.

Commencing with the 2007 audit, the CEO has been improving processes that balance the requirements of the State and the financial controls necessitated by sound financial management. As we have transitioned a new County Risk Manager into the position, it has been a priority to meet with your staff to advise CEO staff on the direction of the program and partnership with A-C.

*"To Enrich Lives Through Effective And Caring Service"*

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Intra-County Correspondence Sent Electronically Only**

Wendy L. Watanabe  
February 5, 2014  
Page 2

This priority and existing efforts have led to the successful completion of several recommendations and improved processes, as follows:

- Vendor fail rate due to input errors has been reduced from 16.04 percent in 2009 to 0.3 percent in 2012.
- Development of written procedures related to the adding and updating of vendors.
- Development of written payment procedures for TPAs.
- Development of secondary approval and oversight for high-risk and large payments.
- Improved claim system documentation, data-security, and training.

In general, the CEO agrees with 22 of the 24 new recommendations submitted by A-C. The CEO will continue to work with your staff to implement the new recommendations and improve and simplify eCAPS interface processes. The technical assistance being provided by A-C staff is welcomed. Continued collaborative efforts will resolve many of the issues addressed in the A-C report. CEO staff looks forward to working with your staff to ensure ongoing improvement.

If you have any questions, please call Steven T. Robles, Assistant CEO/County Risk Manager, at (213) 351-5346.

WTF:BC  
STR:AR:sg

Attachment

**CHIEF EXECUTIVE OFFICE  
RESPONSE TO AUDITOR-CONTROLLER'S FOLLOW-UP REVIEW OF  
THE WORKERS' COMPENSATION PAYMENT PROCESS**

**RECONCILIATION OF VENDOR INFORMATION AND MISCELLANEOUS VENDOR PAYMENT**

**Recommendations 1 thru 5 from July 9, 2007 Report**

**2007 Recommendation 1:** Chief Executive Office management continue to work with Auditor-Controller eCAPS personnel and complete a reconciliation of vendor information between GENCOMP and eCAPS. *(Current Status: Partially Implemented)*

**2007 Recommendation 2:** Chief Executive Office management perform an automated reconciliation of the information on GENCOMP with the eCAPS vendor file on a bi-monthly basis. *(Current Status: Partially Implemented)*

**2007 Recommendation 3:** Chief Executive Office management continue to work with the Auditor-Controller to develop a method to ensure mismatches are corrected, and the information on GENCOMP and the eCAPS vendor tables are current and accurate so that payments are sent to the appropriate vendors' correct addresses. *(Current Status: Partially Implemented)*

**2007 Recommendation 4:** Chief Executive Office management use automated procedures to detect vendors receiving payments under Miscellaneous Vendor Codes and add/update approved vendors to minimize use of the Miscellaneous Vendor Codes. *(Current Status: Partially Implemented)*

**2007 Recommendation 5:** Chief Executive Office management review payments in the "hold" file to correct mismatched addresses and add/update approved vendors to the eCAPS vendor file on a continuous basis. *(Current Status: Partially Implemented)*

**Chief Executive Office (CEO) Response to 2007 Recommendations 1 thru 5: Agree**

Vendor file reconciliation has proven to present many challenges. In July 2010, the CEO filled a vendor file maintenance position with the initial focus of improving the Internal Revenue Service (IRS) TIN number/name matching rate. The information below demonstrates the effectiveness of these efforts.

1099 Reporting (Source: CEO Annual 1099 Reporting Submittals to Auditor-Controller)

Tax Year	2009	2010	2011	2012
Vendors Failing Match	683	124	57	15
Total Vendors Submitted	4,259	4,489	4,618	4,983
Fail Rate (%)	16.04%	2.76%	1.23%	.3%

**Chief Executive Office (CEO) Response to 2007 Recommendations 1 thru 5: Agree (Continued)**

Significant efforts have been made to ensure that payments are issued to accurate addresses and vendors. This was accomplished using a vendor bypass process. The bypass process is a list of vendors with known eCAPS and GENCOMP address conflicts. Payments to vendors on the bypass list are made via a miscellaneous vendor payment which ensures that the payments are mailed to the correct address. In 2011, emphasis was placed on methodically identifying and resolving issues related to those vendors on the bypass list which generated the most miscellaneous vendor payments. According to the information included in the Auditor-Controller's (A-C) report, there has been a 53 percent decrease in the percentage of workers' compensation payments issued via miscellaneous warrants between Fiscal Year (FY) 2010-11 and FY 2011-12. This office believes that continuing our focus on the top vendors will continue to have a positive impact and minimize the potential for misdirected payments.

The following additional vendor file maintenance efforts have been created and implemented since the 2007 audit:

- An automated program that identifies a shortlist of Tax ID numbers which are ideal candidates for removal from the bypass list with minimum work.
- An automated vendor add/modify filter program that reviews incoming vendor add/modify requests to prevent the addition of duplicate and problematic vendors that can result in additional MISC-WC-1099 transactions.
- Quarterly W-9 request letters to vendors, where a CEO Information Technology Services (ITS) program identifies vendors with recent transactions containing data inconsistent with IRS 1099 reporting information for corrective information updates.

On November 19, 2013, a team of CEO and A-C staff was identified to improve vendor file maintenance, reconciliation, and coordination issues. This team is currently collaborating to resolve vendor deactivation issues. Additionally, the team will be utilized for developing solutions, identifying areas requiring improvement, and providing practical recommendations to facilitate improvement on the other recommendations, as necessary. Finally, CEO is evaluating current fiscal position responsibilities and staff to further strengthen processes and controls.

**New 2013 Recommendations 1 thru 3**

**2013 Recommendation 1:** Chief Executive Office management consider re-establishing the "hold" file to allow time to correct mismatches before Miscellaneous Vendor payments are issued.

**CEO Response: Disagree**

The "hold" file still exists although the duration of a payment on hold was reduced to zero days. This solution proved ineffective and will be reconsidered if automated vendor/add modifications in eCAPS are allowed.

**2013 Recommendation 2:** Chief Executive Office management review the programming logic in the vendor matching routine to ensure that the correct vendor address is selected.

**CEO Response: Agree**

Opportunities for process improvements are ongoing and continuous. Reviewing the programming logic in the vendor-matching routine and cleaning up the vendor records in GenIRIS and eCAPS needs to be addressed together.

The CEO acknowledges that vendor matching should be done at the vendor record level where a single GENCOMP vendor and address ID should map to a single eCAPS vendor record and address ID. Unfortunately, a number of issues (GenIRIS' system design, the ability of numerous departments to modify Workers' Compensation vendor records, and limited resources) have significantly slowed the vendor synchronization process. However, the returned-warrant issues experienced prior to the 2007 audit have been significantly reduced by the incorporation and use of the bypass list.

The CEO has also gone through several iterations of system redesign scenarios, including exercises in simulating the strengthening of the vendor matching routine. The simulation resulted in a significant increase of Miscellaneous Vendor payments being generated. The CEO is also in the process of replacing GenIRIS and its eCAPS interfaces which will also solve the most of the system design issues. Additional information on this project is included in our response to the next recommendation.

Target Completion Date: Ongoing and continuous. Many of the issues identified by the A-C will be resolved with the adoption of Claims Vision. Claims Vision is scheduled to go live in the first quarter of FY 2014-15. Any unresolved issues will be revisited after this time.

**2013 Recommendation 3:** Chief Executive Office management immediately stop using the bypass list.

**CEO Response: Disagree**

The bypass list was created to correct the prior problem of payments being mailed to incorrect addresses. Therefore, ceasing to use the bypass list would create an immediate liability exposure as some payments would be misrouted. Workers' Compensation regulations indicate that e-billing payments be made in 15 days and vendor warrant payments be made in 60 days. Failure to process payments in compliance with statutory timeframes subjects the County to potential penalties, interest, and fines. Additionally, the Director of Industrial Relations is empowered to revoke the certificate of consent to self-insure if it is determined an employer intentionally refuses to comply with legally and indisputable compensation obligations.

The CEO recognizes that the interface programs which allow GenIRIS to communicate with eCAPS have necessitated the creation of ad-hoc processes, such as the bypass list, to address known problems (mailing payments to incorrect addresses). In February 2012, the Board of Supervisors (Board) authorized funding for the replacement of GenIRIS and the creation of a new eCAPS interface. This project is currently underway and slated for implementation in the first quarter of FY 2014-15. The new system and new eCAPS interface will facilitate the resolution of issues associated with the current interface.

**CONTROLS OVER THE GENIRIS VENDOR TABLE**

**Recommendations 6 thru 8 from July 9, 2007 Report**

**2007 Recommendation 6:** Chief Executive Office management, with assistance from the Auditor-Controller, develop and implement strict, redundant controls for adding vendors to GENCOMP, modeling the controls used by the Auditor-Controller to add vendors to the eCAPS vendor table, including comparing Taxpayer Identification Numbers to Internal Revenue Service records, and using address validation software to verify that the addresses exist. *(Current Status: Substantially implemented)*

**2007 Recommendation 7:** Chief Executive Office management, with assistance from the Auditor-Controller, use automated procedures to review the GENCOMP vendor table to eliminate duplicate records and identify incomplete records for corrective action. *(Current Status: Implemented)*

**2007 Recommendation 8:** Chief Executive Office management, with assistance from the Auditor-Controller, implement strict controls to deactivate and secure known bad addresses in GENCOMP to prevent them from being used, and deactivate the bad addresses in the eCAPS vendor table. *(Current Status: Partially Implemented)*

**CEO Response to 2007 Recommendations 6 thru 8: Agree**

Though much has been accomplished related to vendor file maintenance, it is an ongoing process requiring coordination between CEO and A-C staff. On November 19, 2013, a team of CEO and A-C staff was created to improve vendor file maintenance, reconciliation, and coordination issues. As described above, this team is currently collaborating to resolve vendor deactivation issues. It is anticipated that the deactivation process will be completed by June 30, 2014.

**New 2013 Recommendations 4 thru 6**

**2013 Recommendation 4:** Chief Executive Office management develop written procedures on adding, updating, and deactivating GenIRIS vendor records.

**CEO Response: Agree**

The CEO has developed written requirements for adding and updating vendor records in GenIRIS. In early FY 2014-15, in conjunction with the ClaimsVision roll-out, written deactivation procedures will be developed. It is anticipated that the updated written deactivation procedures will be completed by October 1, 2014.

**2013 Recommendation 5:** Chief Executive Office management periodically review the GenIRIS vendor table to identify and correct or deactivate unused, incomplete, or duplicate vendor records, or vendor records with bad addresses.

**CEO Response: Agree**

This recommendation has been implemented and the GenIRIS vendor table is periodically reviewed to deactivate unused vendor records and correct incomplete or inaccurate vendor records.

**2013 Recommendation 6:** Chief Executive Office management establish supervisory review and approval to reinstate inactive vendors in GenIRIS.

**CEO Response: Agree**

This recommendation has been implemented. Currently, supervisory review and approval is required to reinstate deactivated vendors.

**TPA PAYMENT CONTROLS**

**Recommendations 9 and 10 from July 9, 2007 Report**

**2007 Recommendation 9:** Chief Executive Office management take action to increase its monitoring of Third Party Administrators and Medical Management Companies to ensure they comply with established payment control requirements. *(Current Status: Partially Implemented)*

**2007 Recommendation 10:** Chief Executive Office management evaluate the feasibility of lowering the threshold dollar amount so that more payments require a second approval and for requiring County monitor approvals. *(Current Status: Implemented)*

**CEO Response to 2007 Recommendations 9 and 10: Agree**

In addition to the current extensive monitoring process in place, CEO has developed an additional payment process audit that will be implemented once fully staffed. It is anticipated that this recommendation will be completed by October 1, 2014.

**New 2013 Recommendations 7 thru 12**

**2013 Recommendation 7:** Chief Executive Office management conduct on-going payment reviews at each Third Party Administrator for a sample of payments across all approval thresholds, including payments deemed to be of higher risk, to ensure compliance with established payment controls and procedures.

**CEO Response: Agree**

In addition to the current extensive monitoring process in place, CEO has developed an additional payment process audit that will be implemented once fully staffed. It is anticipated that this recommendation will be completed by October 1, 2014.

**2013 Recommendation 8:** Chief Executive Office management periodically rotate the assignments of Third Party Administrator monitors.

**CEO Response: Agree**

This recommendation has been completed. On January 2, 2014, the CEO implemented a rotation schedule as part of the On-Site County Representative Program.

**2013 Recommendation 9:** Chief Executive Office management ensure Third Party Administrators develop standardized invoice review procedures for Third Party Administrator staff, and review these procedures for appropriateness.

**CEO Response: Agree**

The CEO agrees with this recommendation; however, CEO selected and reviewed 9 payments identified by A-C as being duplicates or overpayments. CEO's review of these payments found 6 of A-C's assessments were not duplicates or overpayments. Funds have been recovered in two of the overpayment cases, and the third overpayment will be recovered during the Workers' Compensation resolution process.

In addition to the current extensive monitoring process in place, CEO has developed an additional payment process audit that will be implemented once fully staffed. It is anticipated that this recommendation will be completed by October 1, 2014.

**2013 Recommendation 10:** Chief Executive Office management evaluate the feasibility of requiring Third Party Administrators to competitively bid for non-medical services, establish a list of qualified vendors, and require Third Party Administrators to establish contracts with the selected vendors.

**CEO Response: Agree**

Workers' Compensation Third Party Administration contracts that became effective January 1, 2014 require Third Party Administrators to establish panels of qualified vendors. CEO will evaluate the feasibility of other components of A-C's recommendation. It is anticipated that this recommendation will be completed by June 30, 2014.

**2013 Recommendation 11:** Chief Executive Office management require Third Party Administrators to develop a method for rotating vendors to ensure services are fairly distributed.

**CEO Response: Partially Agree**

This recommendation has been completed. Not all vendors have the same abilities or expertise; therefore, a unilateral rotation does not meet acceptable claim standards. However, a vendor rotation process has been implemented and is utilized when feasible.

**2013 Recommendation 12:** Chief Executive Office management develop and implement alternatives for requiring Third Party Administrators to apply secondary approvals to a larger number of payments, which may include payments deemed to be of higher risk (e.g., potential duplicates, transportation payments, etc.).

**CEO Response: Agree**

CEO has developed an additional payment process audit that will be implemented once fully staffed. It is anticipated that this recommendation will be completed by October 1, 2014.



SEPARATION OF DUTIES

**Recommendations 11 and 12 from July 9, 2007 Report**

**2007 Recommendation 11:** Chief Executive Office management take immediate action to ensure that Third Party Administrators implement and maintain proper separation of duties and controls related to creating cases, authorizing payments, entering payment approvals, and changing payment information such as address changes for service providers and injured workers. *(Current Status: Implemented)*

**2007 Recommendation 12:** Chief Executive Office management immediately increase its monitoring of the Third Party Administrators' separation of duties to ensure the prescribed internal controls remain in force. *(Current Status: Substantially Implemented)*

**CEO Response to 2007 Recommendations 11 and 12: Agree**

CEO has developed an additional payment process audit that will be implemented once fully staffed. It is anticipated that this recommendation will be completed by October 1, 2014.

**New 2013 Recommendations 13 thru 15**

**2013 Recommendation 13:** Chief Executive Office management ensure Third Party Administrator staff and Chief Executive Office employees cannot access screens that are not needed to perform their job duties.

**CEO Response: Agree**

CEO will evaluate the feasibility of this recommendation and will request quotes for the changes. System enhancement costs associated with a GENCOMP need to be kept in perspective as the System will be retired in early FY 2014-15, and the Board limited system customization costs (including the development of the eCAPS interface) to a maximum of \$100,000. These issues will be resolved with the adoption of Claims Vision, which is scheduled for the first quarter of FY 2014-15. Claims Vision, the system replacing GENCOMP, will have this control.

**2013 Recommendation 14:** Chief Executive Office management require Third Party Administrators to document their review of monitoring reports, review supporting documentation for exceptions to ensure changes are appropriate, disposition each exception, and retain documentation supporting their reviews. The CEO should follow up to ensure Third Party Administrators perform the reviews.

**CEO Response: Agree**

CEO will require Third Party Administrators to maintain their reviews. This recommendation will be implemented by June 30, 2014.

**2013 Recommendation 15:** Chief Executive Office management evaluate the feasibility of modifying GenIRIS to either prevent changes to payments after they have been approved/authorized for release, or require approvals for payment changes.

**CEO Response: Agree**

Our response to recommendation 15 is included in the response to New Recommendation 13 above.

**SYSTEM-GENERATED DUPLICATE PAYMENTS**

**Recommendations 13 thru 15 from July 9, 2007 Report**

**2007 Recommendation 13:** Chief Executive Office management work with Auditor-Controller staff to identify all duplicate payments caused by GENCOMP/eCAPS interface, and take steps to recover the overpayments. *(Current Status: Partially Implemented)*

**2007 Recommendation 14:** Chief Executive Office management identify and correct the GENCOMP/eCAPS interface system program errors that allow duplicate payments to be created. *(Current Status: Partially Implemented)*

**2007 Recommendation 15:** Chief Executive Office management develop and maintain documentation for the GENCOMP/eCAPS interface. *(Current Status: Partially Implemented)*

**CEO Response to 2007 Recommendations 13 thru 15: Agree with 13 and 15; Disagree with 14**

CEO notes approximately 2,000,000 payments were generated by the systems in the period of July 2007 through March 2012. CEO previously notified A-C staff that it is highly unlikely the 14 identified duplicate payments were system or program generated. Those payments were not clustered and did not share any common features (e.g., time, place, or payee). A more logical inference is the sporadic duplicates were caused by human error subsequent to rejected transactions not the interface. CEO recommends the reconciliation project team (see response 2007 Recommendations 1 thru 5) evaluate the cause of such duplicates.

CEO documented the basic functions of the GENCOMP/eCAPS interfaces in June 2007 and greatly expanded this documentation in October 2013. Updates will continue as the interfaces change.

**New 2013 Recommendations 16 thru 18**

**2013 Recommendation 16:** Chief Executive Office management continue to develop procedures for collecting and referring delinquent accounts in accordance with County Fiscal Manual requirements, and monitor for compliance.

**CEO Response: Agree**

CEO will continue to develop procedures as recommended. This recommendation will be completed by June 30, 2014.

**2013 Recommendation 17:** Chief Executive Office management maintain copies of collection letters and other documentation of collection attempts.

**CEO Response: Agree**

Copies of collection letters and documentation will be incorporated into the claim file and implemented by June 30, 2014.

**2013 Recommendation 18:** Chief Executive Office management enhance their GenIRIS/eCAPS interface system documentation to include sufficient details to allow someone other than the original designer of the system to understand, review, and maintain the system.

**CEO Response: Agree**

CEO began greatly expanding the GenIRIS/eCAPS system documentation in October 2013, and started cross-training additional personnel on the interfaces and reporting functions. System documentation has been updated and will be improved in parallel to the training effort. CEO has also asked that ISD support any programming issues affiliated with the interface programs. Thus, recommendation 18 has been implemented.

**WORKERS' COMPENSATION DATA SECURITY**

**Recommendations 16 thru 18 from July 9, 2007 Report**

**2007 Recommendation 16:** Chief Executive Office management ensure that workers' compensation data is not backed-up on an unsecured, unencrypted hard drive, and limit off-site access, if necessary, to a secure connection, such as VPN. (*Current Status: Implemented*)

**2007 Recommendation 17:** Chief Executive Office management separate the duties of system administrator, programmer, database administrator, and payment processor. (*Current Status: Partially Implemented*)

**2007 Recommendation 18:** Chief Executive Office management develop written policies to safeguard workers' compensation data. (*Current Status: Implemented*)

**CEO Response to 2007 Recommendations 16 thru 18: Agree**

Existing policies will be expanded to further safeguard workers' compensation data. In addition, Claims Vision (the system that will be replacing GENCOMP/GENIRIS) will eliminate the need for external interfaces and ad-hoc systems and the information compiled and retained by them. Our response to recommendation 17 is included in the response to New Recommendation 19 below. Recommendations 17 thru 18 have been completed.

**New 2013 Recommendation 19**

**2013 Recommendation 19:** Chief Executive Office management designate and train back-up personnel who can perform the GenIRIS system administrator, programmer, and database administrator duties.

**CEO Response: Agree**

The payment duties were previously re-assigned to CEO Fiscal and additional ITS staff is being cross-trained on the interface and reporting functions. GENIRIS administrator functions have been split among PCIS (the vendor supporting the application) and CEO staff. In addition, programming responsibilities associated with the interfaces have been assigned to ISD. This recommendation has been completed.

#### GENIRIS ACCESS CONTROLS

##### Recommendation 19 from July 9, 2007 Report

**2007 Recommendation 19:** Chief Executive Office management modify GENCOMP automated access controls to address the weaknesses noted in our review. (*Current Status: Substantially Implemented*)

##### CEO Response: Agree

CEO will evaluate the feasibility of this recommendation. System enhancement costs associated with GENCOMP need to be kept in perspective as the System will be retired in early FY 2014-15, and the Board limited system customization costs (including the development of the eCAPS interface) to a maximum of \$100,000. We will work to ensure that these controls are incorporated into Claims Vision, the system replacing GENCOMP. It is anticipated that this recommendation will be incorporated into Claims Vision by October 1, 2014.

##### New 2013 Recommendations 20 thru 22

**2013 Recommendation 20:** Chief Executive Office management Request the vendor to configure GenIRIS to reduce the number of failed logon attempts required to lock an account, and to stop automatically unlocking locked user accounts.

**2013 Recommendation 21:** Chief Executive Office management Separate the duties of assigning GenIRIS user access and performing and documenting user access reviews.

**2013 Recommendation 22:** Chief Executive Office management Modify GenIRIS access monitoring reports to include additional information (e.g., the number, location and date/time of failed logon attempts, etc.) that would enable the Chief Executive Office to detect potentially unauthorized or inappropriate activity.

##### CEO Response to 2013 Recommendations 20 thru 22: Agree

CEO will discuss these recommendations with the vendor and request quotes for the changes. System enhancement costs associated with a GENCOMP need to be kept in perspective as the System will be retired in early FY 2014-15. CEO is working towards incorporating these changes into Claims Vision rather than update GenIRIS, a soon to be retired program. It is anticipated that these recommendations will be incorporated into Claims Vision by October 1, 2014.

#### CHANGE CONTROL/BUSINESS CONTINUITY PLANS

##### Recommendation 24 and 25 from July 9, 2007 Report

**2007 Recommendation 24:** Chief Executive Office management Develop and implement a formal change control policy for its computer applications. (*Current Status: Partially Implemented*)

**2007 Recommendation 25:** Chief Executive Office management Develop and test a Business Continuity Plan for GENCOMP. (*Current Status: Partially Implemented*)

**CEO Response to 2007 Recommendations 24 and 25: Agree**

The response to these recommendations is covered in the response to New Recommendations 23 and 24 (see below).

**New 2013 Recommendations 23 and 24**

**2013 Recommendation 23:** Chief Executive Office management enhance their change control policies to address the areas noted above.

**2013 Recommendation 24:** Chief Executive Office management ensure the vendor periodically tests their Business Continuity Plan, obtain and evaluate the results of each test, and work with the vendor to resolve any issues.

**CEO Response to 2013 Recommendations 23 and 24: Agree**

CEO enhanced the change control policies developed after the 2007 audit and implemented the new policies in November 2013. These changes, in conjunction with the adoption of Claims Vision in early FY 14/15 will resolve the change control issues identified by the Auditor.

CEO will also continue to develop its Business Continuity Plan for GenIRIS and the corresponding interfaces. A critical component of the workers' compensation Business Continuity Plan is the vendor's Disaster Recovery Plan (DRP). GenIRIS is hosted by a vendor and they provided their DRP and dates of their most recent tests. The ISD data center, where the GenIRIS/eCAPS interface system resides, also exercises their DRP on a periodic basis.

The change control issues will be resolved by October 1, 2014 and the CEO will begin working with the vendor and ISD more closely in evaluating their disaster recovery test results.